

SOUTHWESTERN BELL CORPORATION

**ACTUARIAL VALUATION OF
POSTRETIREMENT TELEPHONE CONCESSIONS**

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SECTION I -- INTRODUCTION

Southwestern Bell Corporation (SBC) currently provides telephone concessions to retirees of SBC, Southwestern Bell Telephone Company, Southwestern Bell Yellow Pages, Inc., Southwestern Bell Telecommunications, Inc. and several other subsidiaries. To qualify, an employee must retire under the early, normal or late retirement provisions of the Southwestern Bell Corporation Management Pension Plan, Southwestern Bell Corporation Pension Plan, or applicable subsidiary plan.

This actuarial valuation involves an analysis of the liabilities and associated expense for those retirees receiving or expected to receive telephone concessions outside the service area of SBC. These participants account for approximately 17.5% of those participants eligible for telephone concessions.

AT&T annually reimburses SBC in part for the concessions of certain pre-divestiture retirees covered under the AT&T/BOC Telephone Concessions Service Agreement effective December 31, 1983. The net cost has been funded and expensed on a pay-as-you-go basis.

In December 1990, the Financial Accounting Standards Board issued Financial Accounting Statement No. 106 (FAS 106), **Employers' Accounting for Postretirement Benefits Other Than Pensions**. FAS 106 requires employers, beginning in 1993, to expense postretirement welfare benefits on an accrual basis similar to that now required for pension plans.

The purposes of this actuarial study are to quantify the magnitude of SBC's overall liability for postretirement telephone concessions for those participants living outside the SBC service area and to identify the effect of adopting FAS 106 on SBC's income statement. The results of the study have been prepared and presented so that attention may be focused on:

- Liabilities by operating company/subsidiary
- Liabilities for current versus future retirees
- Liabilities for management employees versus nonmanagement employees

The results of this study reflect SBC's decision to adopt FAS 106 in 1993 with full immediate recognition of the transition obligation.

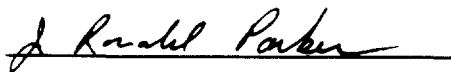
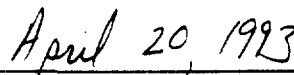
Supporting Documentation

The present study has been based upon the plan provisions briefly summarized in Section IV. Participant information provided by SBC is summarized in Section V. While the information provided has been reviewed for reasonableness, no attempt has been made to audit such information.

The specific actuarial methodology and assumptions underlying this study are presented in Sections VI and VII. We believe the contents of this study comply with the Actuarial Standards Board's guidelines with respect to FAS 106.



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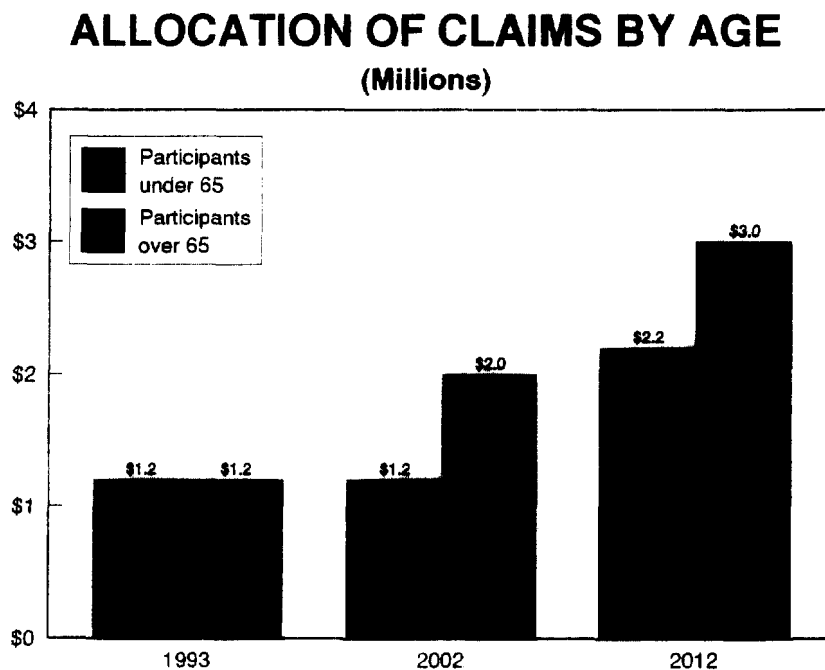
SECTION II -- ACTUARIAL VALUATION RESULTS

Postretirement telephone concessions, liabilities and expense levels were projected for the 20-year period 1993 through 2012. Total corporation results are presented in Table A, while breakdowns by various corporate entities are presented in Appendices A1 through A7.

Telephone Concessions

Telephone concessions are shown net of estimated AT&T reimbursements on an accrual basis. Concessions are expected to increase over the 20-year forecast period, from \$2.1 Million in 1993 to \$3.2 Million in the year 2002 and \$5.2 Million in 2012.

During 1993, 50% of all net postretirement telephone concessions are expected to be received by retirees under age 65. This percentage will change in future years, as illustrated in the following chart:



Currently retired participants will represent 70% of the total concessions in the year 2002 and 32% in the year 2012.

Expected Postretirement Benefit Obligation

The Expected Postretirement Benefit Obligation (EPBO) in any year represents the full actuarial present value of postretirement benefits for all active and retired employees at that time.

As of January 1, 1993, the total actuarial liability for postretirement telephone concessions for SBC is \$48.7 Million. This EPBO is expected to grow to \$62.1 Million in the year 2002 and \$76.0 Million in the year 2012.

Thirty-four percent of the 1993 EPBO is for concessions that will be incurred prior to age 65. Currently retired participants and their dependents account for 54% of the total 1993 liability.

Accumulated Postretirement Benefit Obligation

The Accumulated Postretirement Benefit Obligation (APBO) represents that portion of the total liability assigned prior to the valuation year by FAS 106. The liability for current retirees and active employees eligible to retire or terminate with full benefits is fully reflected in the APBO. The liability for active employees not yet eligible to retire with full benefits is included in the APBO based upon the ratio of the number of completed years of service to the number of years of service that will be completed when the employee satisfies the eligibility requirements for full benefits.

As of January 1, 1993, the APBO for Southwestern Bell Corporation is \$42.7 Million. Of this, 32% represents concessions that will be incurred prior to age 65.

The APBO as of January 1, 1993 represents the Transition Obligation under FAS 106. SBC has elected full immediate recognition of the Transition Obligation in 1993 expense. This results in substantially greater expense in 1993 but reduced expense levels in subsequent years.

Expense

FAS 106 expense is the sum of several individual components: (1) service cost -- the cost of benefits being earned in the current fiscal period; (2) interest on the Accumulated Postretirement Benefit Obligation and Service Cost; (3) interest credited on any accumulated trust assets; (4) amortization of gains and losses or plan amendments; and (5) for 1993 only, the Transition Obligation.

Expense for 1993 is \$46.5 Million or 2.5% of covered payroll. The effect of immediate recognition of the Transition Obligation on 1993 expense is as follows:

	(millions)
■ Expense Before Transition Obligation	\$ 3.9
■ Transition Obligation	<u>\$ 42.6</u>
■ Total Expense	\$ 46.5

1993 Liability Breakdown

Breakdowns of the 1993 liability results between management and nonmanagement employees and between active and retired employees are presented in Appendix B.

Table A

SBC POSTRETIREMENT TELEPHONE CONCESSIONS VALUATION
Basic Valuation Results – Total Corporation
(\$000)

<u>Year</u>	<u>Claims</u>	<u>EPBO</u>	<u>APBO</u>	<u>Assets</u>	<u>Service Cost</u>	<u>Expense</u>	<u>Expense as % of Payroll</u>
1993	\$2,426	\$48,732	\$42,652	\$0	\$722	\$3,886 *	0.21%
1994	2,469	49,969	44,113	0	747	4,020	0.21%
1995	2,513	51,274	45,667	0	760	4,149	0.21%
1996	2,564	52,653	47,303	0	776	4,288	0.20%
1997	2,622	54,102	49,024	0	771	4,410	0.20%
1998	2,692	55,616	50,811	0	766	4,535	0.20%
1999	2,781	57,188	52,651	0	711	4,611	0.20%
2000	2,894	58,814	54,480	0	667	4,695	0.20%
2001	3,028	60,476	56,283	0	636	4,793	0.19%
2002	3,182	62,148	58,045	0	610	4,894	0.19%
2003	3,348	63,820	59,756	0	582	4,984	0.19%
2004	3,533	65,473	61,391	0	545	5,061	0.19%
2005	3,737	67,091	62,920	0	492	5,112	0.19%
2006	3,950	68,648	64,291	0	500	5,213	0.19%
2007	4,165	70,130	65,557	0	455	5,253	0.18%
2008	4,382	71,522	66,646	0	474	5,346	0.18%
2009	4,598	72,815	67,609	0	458	5,393	0.18%
2010	4,818	74,002	68,405	0	455	5,442	0.17%
2011	5,025	75,068	69,028	0	479	5,508	0.17%
2012	5,219	76,012	69,509	0	512	5,572	0.17%

* Excludes Transition Obligation expense of \$ 42,652,000 taken in 1993

SECTION III -- SENSITIVITY OF RESULTS

Estimates of the liability and expense for postretirement telephone concessions are sensitive to a number of assumptions, of which the following are perhaps most significant:

Discount Rate. The discount rate is used to adjust future expected concessions to the current measurement date to reflect the time value of money. The discount rate used in Section II corresponds to the rate currently in effect for pension expense purposes. An increase in the discount rate would result in lower liabilities and expense.

Concessions Trend Rate. The concessions trend rate is used to anticipate per capita increases in concessions. The concessions trend rate used in Section II is a flat rate of 2% per year. A decrease in the trend rate would result in lower liabilities and expense.

Table B reviews the forecast results assuming an 8.5% discount rate in place of the 7.5% discount rate used in Section II and also assuming a 1% increase in the concessions trend rate used in Section II. The following table summarizes the changes in the liability and expense results (figures may vary from those in Table B due to rounding):

<u>Change in Discount Rate</u>			
(millions)			
	<u>7.5%</u>	<u>8.5%</u>	<u>Percentage Change</u>
Expected Postretirement Benefit Obligation	\$ 48.7	\$ 42.5	(12.7)%
Accumulated Postretirement Benefit Obligation	\$ 42.6	\$ 37.7	(11.5)%
Expense: Transition Obligation	\$ 42.6	\$ 37.7	(11.5)%
Ongoing Cost	\$ 3.9	\$ 3.7	(5.1)%

Change in Concession Trend Rate

(millions)

	<u>Current Rates</u>	<u>Adjusted Rates</u>	<u>Percentage Change</u>
Expected Postretirement Benefit Obligation	\$ 48.7	\$ 56.9	16.8%
Accumulated Postretirement Benefit Obligation	\$ 42.6	\$ 49.0	15.0%
Expense: Transition Obligation	\$ 42.6	\$ 49.0	15.0%
Ongoing Cost	\$ 3.9	\$ 4.6	17.9%

Table B

SBC POSTRETIREMENT TELEPHONE CONCESSIONS VALUATION
1993 Sensitivity Results – Total Corporation
(\$000)

	<u>Base Results</u>	<u>Discount Rate Change</u>		<u>Trend Rate Change</u>	
		<u>1% Increase</u>	<u>% Change</u>	<u>1% Increase</u>	<u>% Change</u>
Claims	\$2,426	\$2,426	0.0%	\$2,426	0.0%
EPBO	48,732	42,475	-12.8%	56,914	16.8%
<u>APBO</u>					
Retirees	26,212	24,159	-7.8%	28,762	9.7%
Fully eligible active participants	3,394	2,987	-12.0%	3,889	14.6%
Other active participants	<u>13,046</u>	<u>10,571</u>	-19.0%	<u>16,356</u>	25.4%
Total	42,652	37,717	-11.6%	49,007	14.9%
Assets	0	0	0.0%	0	0.0%
Service Cost	722	580	-19.7%	916	26.9%
<u>Expense</u>					
Transition Obligation	42,652	37,717	-11.6%	49,007	14.9%
Ongoing Cost	3,886	3,734	-3.9%	4,571	17.6%

SECTION IV -- SUMMARY OF PLAN PROVISIONS

A. Basic Plan Information

- | | | |
|-----|---------------|--|
| (1) | Plan: | Telephone Concessions for Retired Employees |
| (2) | Plan Sponsor: | Southwestern Bell Corporation and Participating Subsidiaries |
| (3) | Plan Year: | January 1 through December 31 |

B. Eligibility

Retired employees of Southwestern Bell Corporation and Participating Subsidiaries; spouses are eligible for coverage for up to three months after the death of a retired employee; eligibility of subsidiaries for specific benefits is indicated in D. below.

C. Requirements for Benefits

Service or disability retirement from the Southwestern Bell Corporation Management Pension Plan or the Southwestern Bell Corporation Pension Plan

	<u>Subsidiary</u>	<u>Management Employees</u>	<u>Non-Management Employees</u>
D.	Benefits		
	<u>Defined</u>		
	Southwestern Bell Telephone Company	\$30 IntraLATA; 100% Basic and Service Connection, Move, Charges	\$30 IntraLATA; 100% Basic and Service Connection, Move, Charges
	Southwestern Bell Telecommunications, Inc.	Same as Telephone Company	Same as Telephone Company
	Southwestern Bell Yellow Pages, Inc.	Pre-1993 retirees, same as Telephone Company Post-1992 retirees, none	Pre-8/10/86 retirees, same as Telephone Company Post-8/10/86 retirees, none
	Southwestern Bell Corporation and Subsidiaries	Same as Telephone Company	None
	Other Subsidiaries	None	None

E. **AT&T Cost Sharing**

Pursuant to the AT&T/BOC Telephone Concession Service Agreement effective December 31, 1983, AT&T reimburses Southwestern Bell Corporation for a certain level of telephone concessions made to certain former SBC employees. These agreements are made on behalf of SBC's retired employees whose pensions became effective prior to January 1, 1984, and who (as of the effective date of the agreement)

were eligible for a telephone concession. Since the agreement was related to the transfer of SBC's InterLATA toll service portion of its business operations to AT&T, the reimbursement relates to the InterLATA toll telephone concessions. The monthly allowable reimbursement is the total of the retired employee's monthly InterLATA and IntraLATA charges. However, the reimbursement for any month will not exceed \$30 less that month's IntraLATA charges.

SECTION V -- SUMMARY OF PARTICIPANT DATA

Participant Data

Southwestern Bell Corporation presently provides postretirement telephone concessions for employees of the following corporate entities:

<u>Provided</u>	<u>Not Provided</u>
SBC Administrative Services, Inc.	Associated Directory Services, Inc.
SBC Asset Management, Inc.	BVMS, Inc.
SB Audit Services, Inc.	Golf Club of Oklahoma
SBC Corporate Services, Inc.	SB Messaging Services, Inc.
SB Interactive Technologies, Inc.	Metromedia Paging Services, Inc.
SB International Holdings Corp.	SB Mobile Systems, Inc.
SBC Management Services, Inc. (limited)	SB Printing Company
Mast International, Ltd.	Summit Telemarketing, Inc.
SB Personnel Services, Inc.	Times Journal Publishing Company
SB Technology Resources, Inc.	Worldwide Directory Product Sales, Inc.
SB Telecommunications, Inc.	
SB Telephone Company	
SB Washington, Inc.	
SB Yellow Pages, Inc. (limited)	

Data for active and retired employees as of January 1, 1993 was supplied on computer tape.

The total covered employees derived from this tape was as follows:

	<u>Covered</u>	<u>Not Covered</u>	<u>Total</u>
Actives	51,804	6,760	58,564
Retirees	<u>31,466</u>	<u>637</u>	<u>32,103</u>
Total	83,270	7,397	90,667

Active and retired employees not covered are individuals employed by (or retired from) a corporate entity that does not provide postretirement telephone concessions.

The following participant summaries appear at the end of this section:

Table C: Active participant age/service distribution

Table D: Retired participant age distribution

Table E: Participants by requested corporate groupings

Table C1

SBC POSTRETIREMENT TELEPHONE CONCESSIONS VALUATION
Active Total Participant Summary
January 1, 1993

<u>Age/ Service</u>	<u>0-4</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30+</u>	<u>Total</u>
<20	20	0	0	0	0	0	0	20
20-24	602	13	0	0	0	0	0	615
25-29	1,034	460	114	0	0	0	0	1,608
30-34	838	865	4,800	75	0	0	0	6,578
35-39	636	473	4,740	4,969	371	0	0	11,189
40-44	525	257	2,522	4,947	6,380	433	0	15,064
45-49	272	129	1,106	1,846	4,065	2,654	124	10,196
50-54	88	59	439	459	888	1,315	804	4,052
55-59	45	35	221	174	311	248	770	1,804
60-64	15	8	55	98	93	60	290	619
65+	<u>1</u>	<u>1</u>	<u>10</u>	<u>10</u>	<u>5</u>	<u>2</u>	<u>30</u>	<u>59</u>
Total	4,076	2,300	14,007	12,578	12,113	4,712	2,018	51,804

Average age: 41.5 years

Average service: 17.2 years

Average annual salary: \$36,140

Table C2

SBC POSTRETIREMENT TELEPHONE CONCESSIONS VALUATION
Active Management Participant Summary
January 1, 1993

<u>Age/ Service</u>	<u>0-4</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30+</u>	<u>Total</u>
<20	1	0	0	0	0	0	0	1
20-24	67	6	0	0	0	0	0	73
25-29	378	209	15	0	0	0	0	602
30-34	274	472	670	12	0	0	0	1,428
35-39	168	256	1,301	1,210	96	0	0	3,031
40-44	123	141	646	1,472	2,003	147	0	4,532
45-49	64	49	337	584	1,243	857	25	3,159
50-54	19	21	110	80	164	281	173	848
55-59	4	9	25	20	17	15	88	178
60-64	0	1	6	5	2	2	15	31
65+	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>3</u>
Total	1,098	1,164	3,110	3,384	3,525	1,302	303	13,886

Average age: 41.1 years

Average service: 16.8 years

Average annual salary: \$52,582

Table C3

SBC POSTRETIREMENT TELEPHONE CONCESSIONS VALUATION
Active Nonmanagement Participant Summary
January 1, 1993

<u>Age/ Service</u>	<u>0-4</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30+</u>	<u>Total</u>
< 20	19	0	0	0	0	0	0	19
20-24	535	7	0	0	0	0	0	542
25-29	656	251	99	0	0	0	0	1,006
30-34	564	393	4,130	63	0	0	0	5,150
35-39	468	217	3,439	3,759	275	0	0	8,158
40-44	402	116	1,876	3,475	4,377	286	0	10,532
45-49	208	80	769	1,262	2,822	1,797	99	7,037
50-54	69	38	329	379	724	1,034	631	3,204
55-59	41	26	196	154	294	233	682	1,626
60-64	15	7	49	93	91	58	275	588
65+	<u>1</u>	<u>1</u>	<u>10</u>	<u>9</u>	<u>5</u>	<u>2</u>	<u>28</u>	<u>56</u>
Total	2,978	1,136	10,897	9,194	8,588	3,410	1,715	37,918

Average age: 41.6 years

Average service: 17.3 years

Average annual salary: \$30,119

Table D1

SBC POSTRETIREMENT TELEPHONE CONCESSIONS VALUATION**Retired Total Participant Summary****January 1, 1993**

<u>Age</u>	<u>Retired Before 1984</u>	<u>Retired After 1984</u>	<u>Total</u>
<45	0	214	214
45-49	10	1,321	1,331
50-54	22	2,347	2,369
55-59	223	3,192	3,415
60-64	<u>1,740</u>	<u>4,364</u>	<u>6,104</u>
Total <65	1,995	11,438	13,433
65-69	3,671	3,681	7,352
70-74	3,520	1,008	4,528
75-79	2,174	31	2,205
80-84	1,902	0	1,902
85-89	1,478	0	1,478
90+	<u>568</u>	<u>0</u>	<u>568</u>
Total >65	13,313	4,720	18,033
Total All	15,308	16,158	31,466
Average age under 65:	57.6 years		
Average age over 65:	73.4 years		
Average age total:	66.7 years		

Table D2

SBC POSTRETIREMENT TELEPHONE CONCESSIONS VALUATION
Retired Management Participant Summary
January 1, 1993

<u>Age</u>	<u>Retired Before 1984</u>	<u>Retired After 1984</u>	<u>Total</u>
<45	0	111	111
45-49	0	1,102	1,102
50-54	5	1,662	1,667
55-59	33	1,542	1,575
60-64	<u>436</u>	<u>1,614</u>	<u>2,050</u>
Total<65	474	6,031	6,505
65-69	907	1,195	2,102
70-74	896	321	1,217
75-79	608	15	623
80-84	570	0	570
85-89	447	0	447
90+	<u>151</u>	<u>0</u>	<u>151</u>
Total>65	3,579	1,531	5,110
Total All	4,053	7,562	11,615
Average age under 65:	55.8 years		
Average age over 65:	73.8 years		
Average age total:	63.7 years		

Table D3

SBC POSTRETIREMENT TELEPHONE CONCESSIONS VALUATION
Retired Nonmanagement Participant Summary
January 1, 1993

<u>Age</u>	<u>Retired Before 1984</u>	<u>Retired After 1984</u>	<u>Total</u>
<45	0	103	103
45-49	10	219	229
50-54	17	685	702
55-59	190	1,650	1,840
60-64	<u>1,304</u>	<u>2,750</u>	<u>4,054</u>
Total <65	1,521	5,407	6,928
65-69	2,764	2,486	5,250
70-74	2,624	687	3,311
75-79	1,566	16	1,582
80-84	1,332	0	1,332
85-89	1,031	0	1,031
90+	<u>417</u>	<u>0</u>	<u>417</u>
Total >65	9,734	3,189	12,923
Total All	11,255	8,596	19,851
Average age under 65:	59.2 years		
Average age over 65:	73.3 years		
Average age total:	68.4 years		

Table E

SBC POSTRETIREMENT TELEPHONE CONCESSIONS VALUATION
Participants By Corporate Entity
January 1, 1993

	<u>Active</u>	<u>Retired</u>	<u>Total</u>
SBC Asset Management, Inc.	61	7	68
SB International Holdings, Inc. / Mast International, Ltd.	55	2	57
SBC Management Services, Inc. and Subsidiaries*	747	62	809
SB Technology Resources, Inc. / SB Interactive Technologies, Inc.	198	1	199
SB Telecommunications, Inc.	851	31	882
SB Telephone Company	49,892	31,156	81,048
SB Yellow Pages, Inc.	<u>0</u>	<u>207</u>	<u>207</u>
Total	51,804	31,466	83,270

* SBC Administrative Services, Inc.
 SB Audit Services, Inc.
 SBC Corporate Services, Inc.
 SBC Personnel Services, Inc.
 SBC – Washington, Inc.

SECTION VI -- SUMMARY OF ACTUARIAL METHOD

Projected Unit Credit Actuarial Cost Method (Service Prorate)

Expected benefits payable in the event of retirement based on the applicable actuarial assumptions are determined for all active and retired participants. The actuarial present value of these expected benefits constitutes the expected postretirement benefit obligation.

The projected benefits are allocated proportionately to each active participant's years of service through the earliest eligibility for full benefits. The service cost is equal to the actuarial present value of the benefits allocated to the current year; the accumulated postretirement benefit obligation is equal to the actuarial present value of the benefits allocated to all prior years.

The accumulated postretirement benefit obligation for participants currently receiving benefits and for active participants currently eligible for full benefits is the actuarial present value of the benefits expected to be paid. No service costs are calculated for these participants.

SECTION VII -- SUMMARY OF ACTUARIAL ASSUMPTIONS

(1)	Discount Rate	7.5% per year, compounded annually
(2)	Long-Term Asset Return Rate	N/A
(3)	Annual Increase in Concessions	2.0% per year, compounded annually
(4)	Mortality	
	(a) Active Employees	Rates from 1991 6-year experience study (rates shown in Exhibit B of postretirement health report)
	(b) Retired Employees/Spouses	Rates from 1991 6-year experience study (rates shown in Exhibit B of postretirement health report)
(5)	Retirement	Rates from 1991 6-year experience study (rates shown in Exhibit C of postretirement health report)
(6)	Separation from Service	Rates from 1991 6-year experience study (rates shown in Exhibit D of postretirement health report)
(7)	Disablement	None
(8)	Salary Increase	Management rates from 1991 5-year experience study; same rates used for nonmanagement employees (rates shown in Exhibit E of postretirement health report)